

Foreign aid: A doctored image of impact on social welfare development in developing countries

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Brief Abstract

Foreign aid is primarily intended as a wealth transfer mechanism from rich, to poor, countries. Billions of dollars have been distributed in aid largely to assist in social welfare development. Still many are in poverty and tools to evaluate real impact are not in use.

Goal of paper

Paper examines

- the ‘doctored’ impact of foreign aid, as evidence in the literature, on social welfare development in recipient countries and
- presents a model for better understanding of the relationships between world states in regards to foreign aid giving and disbursement.

Presentation Outline

- Brief overview
- Discussion on foreign aid
 - View of foreign aid by recipient & donor countries
- Overview of recipient/third world countries
- Impact of foreign aid on developing countries
- Recommendations
- The doctored image evaluated
- Mirror model (stages reviewed)
- Implications for practice
- Future research

Brief Overview

- **Since 1958, donor nations have been asked to contribute to the development of third world nations by giving aid to 0.7 percent of their GDP (Adelman, 2003).**
- **Only Denmark, Luxembourg, Norway and the Netherlands have approached the target.**
- The term foreign aid has a broad definition and was initially geared toward various aspects of influence of economic and/or social reforms (Gomanee, et al., 2003).

Brief Overview cont'd

- To date definitions still vary authors defining it
 - 1) as a way **to promote increased economic growth** through “a mixture of ideas and money customized to meet the local conditions of recipient countries” (Dollar & Pritchett, 1998, p. 1);
 - 2) **welfare for governments**; government-to-government subsidies funded through taxes that constitute wealth transfer between governments” (Blanchette, 2003, pp.1-2).
 - 3)Recently, **complex partnerships** including support from such as vaccine shipments, remittances, scholarships and assistance from religious organizations.
 - 4) constitute help to other countries in the form of **technical support, trade loans, emergency, disaster relief, and direct grants among others** (Adelman, 2003).
 - 5) support **government spending with the intent of reducing poverty, or** at least improving the welfare and living conditions of the poor (Gomanee et al., 2003)
- The variation in scope and definitions of aid according to Santiso (2001) has itself caused confusion.

Discussion on foreign aid

View of foreign aid by recipient countries

- **Views of each other:** Third world states, on the other hand see the first world and their successes and want to mirror that same success in their own societies
- The donor and recipient needs vary, for each there are pros and cons in the representation of views.
- As a means for the reduction of poverty and promotion of increased economic growth
- As a pre-made fix-it-all formula that negatively impacts social welfare development, disrupts economies, and fosters dependency
- It limits economic markets and the capacity of developing countries to develop and pursue their own objectives
- Accounts for a great part of the revenue base for public expenditure, touting signs of dependency, for most developing countries
- As a way to bring about a better quality of life to citizens, reducing illiteracy rates, infant mortality rates, and disparity
- As a to increase economic growth, infrastructure, production, and savings ability.

Discussion on foreign aid:

View of foreign aid by donor countries

Views of each other: Socially, donor countries do not want to see severe signs of poverty that may one day transcend borders and be present in their own countries (Bauer, 2000).

- Primarily rooted in self-interest
- Based on the hope that future security, albeit political and/or economic, will prosper by recipient countries' allegiance to donor countries.
- As protection of borders against negative social ills.
- As bargaining chips to protect donor countries and not necessarily to assist developing countries in addressing social welfare, and development needs
 - E.g. In the 1960s the US established government-to-government subsidies as a defense tactic and as a form of foreign aid. Used to pre-empt development by the Soviet Union and buy influence in non-Communist developing countries under the guise of combating poverty.
- The variability of foreign aid makes its' actual use indefinite.

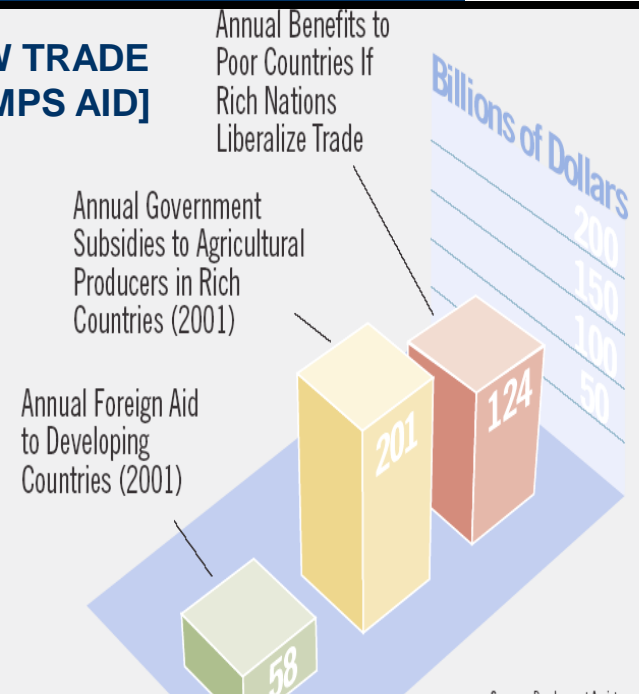
Overview of recipient/third world countries

- Varied names given to developing countries: third world states, **“developing nations and/or countries”** and **“recipient countries”**, while others use **“third world countries”**. **For the purposes of this paper, these concepts are used interchangeably.**
- Many as 70 developing countries are still in severe poverty –account for population of 2 billion.
- Thomas (1999) identifies these countries as:
 - **A place where poverty is the norm, for whom vulnerability and risk are defining features of their daily existence, wherever they are located territorially. Their search is for security, fulfillment of basic material needs; the achievement of human dignity, which includes personal autonomy, control over one’s life and unhindered participation in the life of the community. (p.229)**
- Poor, marginal populations, in need of help and rescuing. They have huge economic, savings and foreign exchange gaps
- Lack the capacity to turn their belongings into usable economic assets
- Citizenry have ‘houses but not titles,’ ‘crops but not deeds,’ ‘businesses but not statutes of incorporation. Without these, they cannot produce sufficient capital (De Soto, 2000).
- Live on less than 1-2 US dollars a day. The result is that many countries began to seek foreign aid to help break this cycle of poverty.

Foreign aid impact on developing countries

- Donors may take back all the foreign aid given in protectionist trade policies.
- E.g. the value of the annual agricultural subsidies in rich nations is more than 3x the yearly aid flow to poor countries,
- Years of foreign assistance have not worked for some countries such as Zaire (now the Democratic Republic of Congo).
- Results continue to be disappointing. The political instability of developing nations has stunted growth from foreign aid because:
 - Funds, clothing, food, etc. are not given directly to the poor; rather they are funneled through the recipient governments.
 - Any 'aid' that is subsequently passed down to the poor of developing countries is secondary and incidental.
 - The recipient country's government decides where and how much money actually reaches its citizens. Because corruption runs rampant through much of the developing world, vast sums of aid are embezzled or consumed by government employees. (p 3)

[HOW TRADE TRUMPS AID]



Sources: Development Assistance Committee: *Agricultural Policies in OECD Countries: Monitoring and Evaluating* (Paris: Organization for Economic Co-operation and Development, 2002); *Global Economic Prospects and the Developing Countries* (Washington: World Bank, 2001)

Impact of foreign aid on developing countries cont'd

- However, in using Dollar and Pritchett's, 1998 definition of foreign aid, **“a mixture of ideas and money customized to meet the local conditions of recipient countries”** (p.1) as the basis to measure impact on social welfare development, much has been achieved.
- **Aggregate savings and investment** have increased in developing countries, showing positive relationships with growth (Hansen & Tarp, 1999).
- Foreign aid for assistance in the **health care arena** and with systematic needs of developing **countries'** **national peace, conflict resolution, and educational literacy** has significantly contributed to social welfare development (Guillaumont, 2004).
- Aid inflows to governments have freed up governmental resources allowing governments to invest in the social welfare of its people.
- In fact billions of dollars have already been distributed in the history of foreign aid by rich countries, particularly the G7[1] (Perez, 2003). Lupien (2002) points to evidence that
 - “The number of literate adults have tripled, from approximately 1 billion in 1960 to more than 2.7 billion today, and the proportion of children out of primary school has fallen from more than half to less than one-quarter. The share of rural families without access to a safe water supply has fallen from nine-tenths to about one-quarter, and 80% of people in developing countries now have access to health services.” (p. 3)

[1] G7 countries: These are the richest countries identified by Perez (2003) that contribute to the aid inflows in developing countries. These include Canada, France, Japan, Germany, Italy, United Kingdom, and United States.

Impact of foreign aid on developing countries cont'd

- Countries such as Ghana, Uganda, Tunisia, Thailand, China, Chile, and Cuba have seen considerable progress because of foreign aid (Lupien, 2002).
- Monies spent on Africa's human development in the areas of education, expenditure on health, good governance, economic growth, and external debt have brought noticeable improvement to social welfare development (Arimah, 2004).
- In their study of pro-poor public expenditures (PPE) with 39 countries from 1980 to 1998, Gomanee and colleagues (2003) found that PPE results increased welfare development.
 - For instance, countries' sanitation, education, and even health-based sectors on the evaluation of the Human Development Indices and Infant Mortality Rates showed great development.
- South (2004) also found aid greatly influenced
 - the rebirth of civil societies and reforms in developing countries.
 - Because of direct foreign aid, hundreds of millions of Asia's citizens are much better off today and out of poverty
- Hilderbrand, 2002
 - Bolivia, Kyrgyz Republic and Uganda, technical cooperation represented huge portions of social welfare capacity development.
 - foreign aid has had tremendous impact on these societies and their people

Doctored image

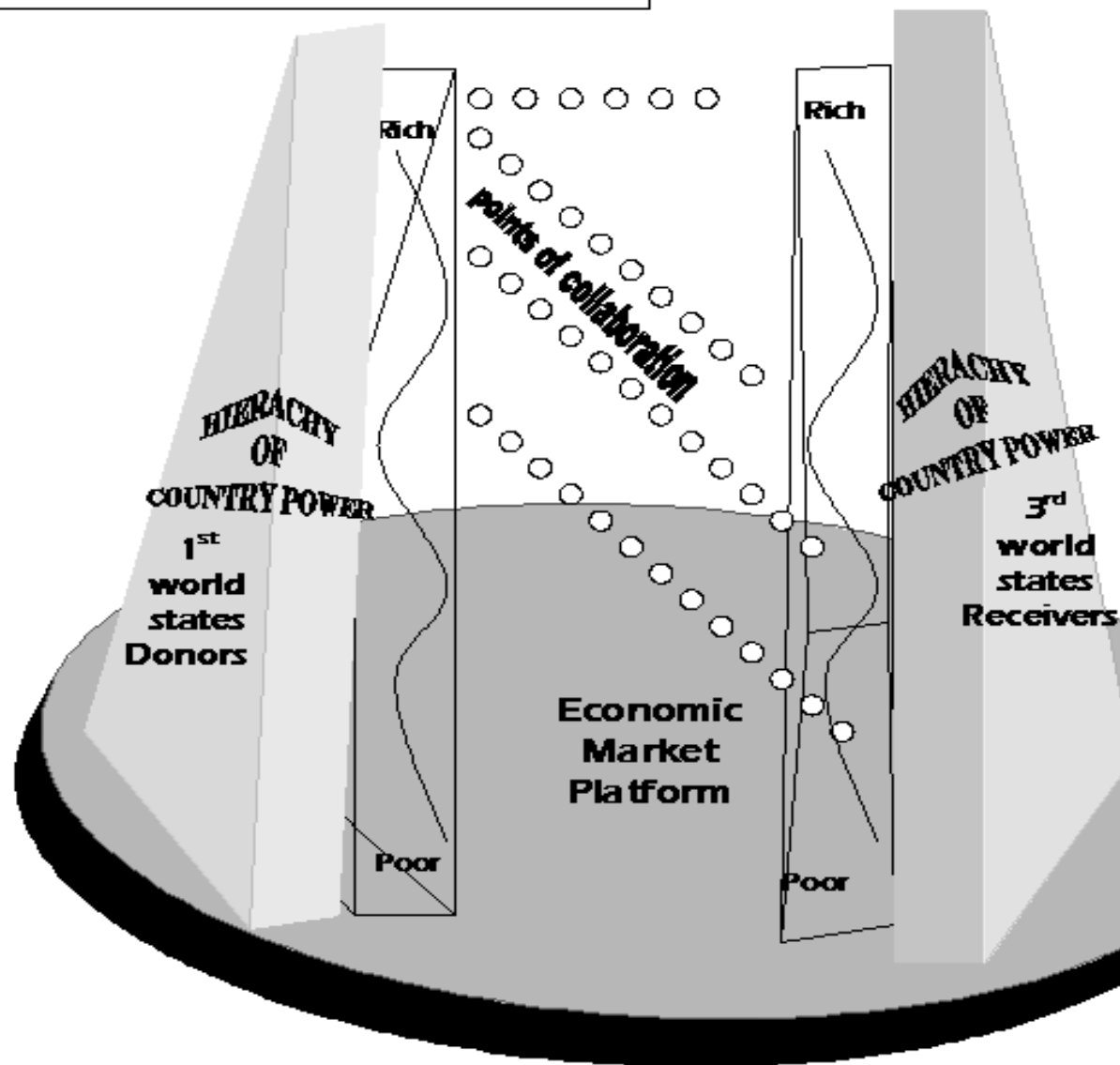
- The doctored image is the belief that the information that has been provide to us via the literature has been tainted. It does not provide the full picture.
- It calls for the examination of the role of measurement, and attention to the lack of appropriate measurements of foreign aid and impact on social welfare development.
- For example: The landmark study by Dollar and Pritchett, (1998) “Assessing aid: what works, what doesn’t and why?” presents respectable findings but has been criticized (Chauvet & Guillaumont, 2002; Guillaumont & Chauvet, 2001).
 - They used their understanding of aid assessment using their frame of reference no standard for assessment or classification.
 - They reported that there were no effects to recipient countries in regards to external shocks, such as natural disasters; not acknowledging that this can single handedly hamper development tremendously (Chauvet & Guillaumont, 2002).

Mirror model

- The mirror is a reflective tool
- helps us see whatever we desire to see of ourselves.
- The model, from this perspective, explains simplistically ‘what we want to see of ourselves’.

EXPLANATION OF THE MODEL

- Model is explanatory Pictorially contains two triangles on a circular platform connected by dots of collaboration and spirals to showcase flow of resources.
- The two triangular images allow a visual look of hierarchies at work within systems, on a circular platform of world economic markets.
- There are only two triangles because, there are with all respects, only two world states today.
- Most countries, since the fall of the second world, have become third world states.
- The triangles also explain how aid trickles down to the poor, if at all, in both world states.
- **Belief of the model:** The more countries stay in poverty, the more they may receive aid. The more they receive the more they are dependent as they find it harder to produce. This is the way power and control is maintained (Pearson, 2004; Van der Hoeven, 2000).



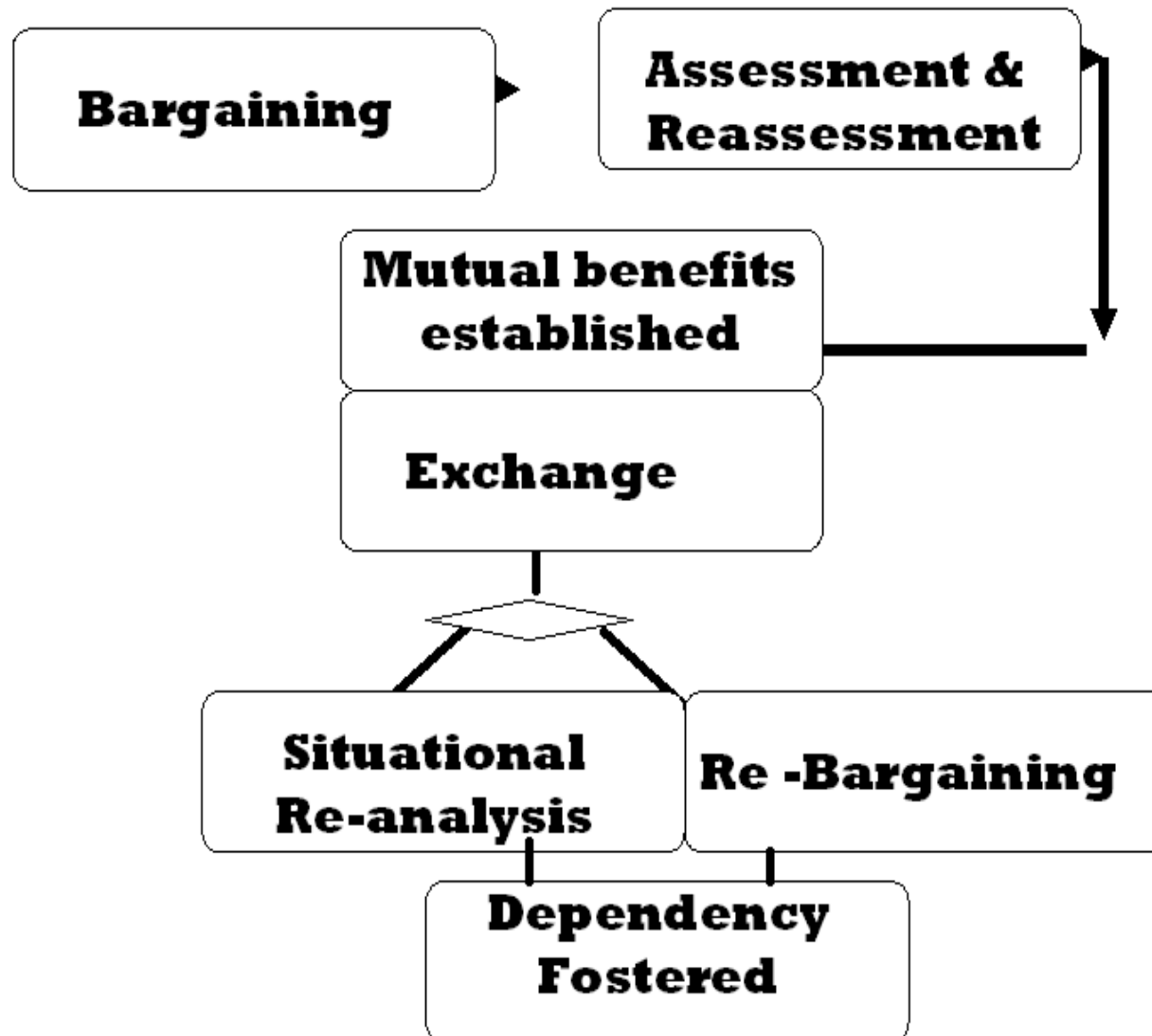
An explanation model of foreign aid and its efforts for collaboration. It is constructivist model with inklings of standpoint theory but grounded in structural functionalism and systems theory.

Mirror Model Stages

- Empirical models have been used in assessing foreign aid's impact on social welfare development (Brumm, 2003).
- However, a standard methodology has been overlooked to keep all researchers focused on the proper tasks and activities required when studying this phenomenon (Paper, Rodger, & Pendharker, 2000).
- Many of the models are 'how to models' and not 'why' models.
- The mirror model considers the usage of power by decision makers to influence the view of foreign aid's impact on social welfare development in developing nations. Foreign aid distribution alone cannot account impact.
- The mirror model, an original sequential model identifies six main activities in mirroring an image of self when distributing aid. These activities are:
 1. bargaining
 2. assessment and reassessment,
 3. mutual benefits established,
 4. exchange,
 5. situational re-analysis and re-bargaining and
 6. dependency (See Table 2 and direction of process in Figure 2).

STAGES	DONOR	RECIPIENT	LEVEL OF NEGOTIATION
BARGAINING	Relations, policies and country assessed	<ul style="list-style-type: none"> Donor disbursement patterns evaluated for window of opportunity and leniency 	Upper level
ASSESSMENT & RE-ASSESSMENT	Acknowledge need for aid	<ul style="list-style-type: none"> Request is made for aid 	Upper level
MUTUAL BENEFITS ESTABLISHED	Request examined for mutual power-political economic status/position	<ul style="list-style-type: none"> Wait (policies and willingness to comply evaluated by donor country) 	Upper level
EXCHANGE	Request reassessed for fit Disbursement and reporting procedures shared Aid disbursed Await report wait	<ul style="list-style-type: none"> Bargains are made as to what will be done with aid theoretically Disbursement and reporting procedures shared (only top level officials are at table of discussion and know the details of agreement) Aid received (allocation options explored) Strategize fungibility of aid Prioritize aid 	Mid & Upper level
SITUATIONAL RE-ANALYSIS & RE-BARGAINING	Report received Situation re-assessment for goal accomplishment and continued need	<ul style="list-style-type: none"> Aid used with limited methodology to track impact Aid progress reported 	Mid level
DEPENDENCY	Continued aid disbursed	<ul style="list-style-type: none"> Request more aid [dependence] 	Upper level

Gentle-Genitty - 2004 – Flow Chart of Mirror Model



Bargaining, Assessment & Reassessment

BARGAINING

- Initial activity, bargaining.
- Donor countries review their needed relationships and policies and assess the recipient country's potential.
- Recipient country evaluates the patterns of the donor and looks for a window of opportunity for them to gain assistance, as they see no other alternative to financing (Weiss, 1999).
- Sometimes the political factors may be simply to buy votes from developing countries in the UN voting process. On the other hand, if a country was formerly of colonial status they may get twice as much aid especially if they are of non-democratic status by their former colonizers (Francis, 2003).

ASSESSMENT & REASSESSMENT

- The second activity, assessment and reassessment.
- The donor and prospective recipient country acknowledge the need for aid, request made.
- Recognizing that there is a humanistic perspective in giving aid, relative need is a factor in receipt of foreign aid. "The needier the country, the more aid is expected to be received" (Feeny & McGillivray, 2004, p.101). This activity allows for the patterns of giving to be clear across developing nations (Francis, 2003).

Mutual benefits established & Exchange

MUTUAL BENEFITS ESTABLISHED

- Involves the examination for mutual power and political, economic status and position by the donor countries.
- Studies have demonstrated that the needs of recipient countries are not always the primary influential factors in aid allocation (Feeny & McGillivray, 2004).
- Aid allocations are made primarily to support 'perceived' foreign economic, political and security interests (Maizels & Nissanke, 1984, cited in Feeny & McGillivray, 2004, p.101).
- Prospective recipient countries simply wait, as their policies and willingness to comply are evaluated by donor countries.

EXCHANGE

- The donor country reassesses the request for aid.
- During this reassessment, the prospective recipient country engages in a type of bargaining to ascertain what to do with the aid, theoretically. For instance, developing countries may consider their need to market their products in first world states or developed nations, thus may bargain at this point (Van der Hoeven, 2000). Thereafter aid may be disbursed and progress, if any, is tracked.

Situational Reanalysis & Re-bargaining

- Progress of aid impact reported to the donor country and re-bargaining may take place for more aid, based on need or project incompleteness.
- If recipient has become dependent on the aid, to enhance social welfare development, a new series of bargaining and negotiation activities may take place.
- This is a difficult aspect due to the fungibility of aid creating a 'fiscal illusion' (McGillivray & Morrissey, 2000).
- Lensik and White (1999) points out that the fungibility or interrelatedness of aid is not necessarily a question of corruption but that aid given to a project may be used to help free up resources for governments in the same area if monies were already allocated.
- Hence in reporting success, the project may have been achieved but not always with the resources from the donor (Lensik & White, 1999).

Dependency

- The recipient country fosters a sort of dependency continuously requiring aid to carry out the work (Weiss, 1999).
- Due to a commitment to either political motivations or humanitarian needs, the donor country continues to disburse aid (Lensik & White, 1999).
- This happens particularly when “the measures for aid successes are not transparent, not communicated to the recipient country departments and the recipients do not have effective means of monitoring the expenditures and budgetary processes” (McGillivray & Morrissey, 2000, p.7).
- Weiss (1999) cautions that this dependency is a result of globalization; recipient countries lose their capacity to control and protect the social and economic well-being of its own members. The result is diminished power.

Foundations of the model

- Model embraces many theoretical aspects.
- The rationale for each theoretical component draws from an understanding of how change occurs as proposed by Edwards and Sen (2000)

From the perspective of change, all social systems rest on three bases:

- 1) **a set of principles that form an axiomatic basis of ethics and values;**
- 2) **a set of processes – the functioning mechanisms and institutions that under grid the system and**
- 3) **the subjective states that constitute our inner being – our personal feelings and intuitions in the deepest sense.**

The first of these bases of change describes how we understand and rationalize the workings of the social order, while the third describes how we understand ourselves. Some of this understanding revolves around our own place in the social order, but it also concerns the deeper questions we ask ourselves about the meaning of human existence and the nature of reality. (p. 606)

Foundations of the model cont'd

- Based on this model of understanding the mirror explanatory model is grounded essentially in **structural functionalism** (reflecting a belief that there is already an assumed order based on the current position on the world market),
- **systems theory** (within this structure there are various systems and subsystems that must work together and transcend border boundaries to operate and exist in the larger suprasystem) and **conflict theory** as there is mass competition for very scarce resources that conceptually drive the collaboration (Schriver, 2004).
- Through these theories the model explains the political and economic dimensions of foreign aid and why impact has been minimally observed in developing nations.

Advantages of the model

- Model is linear and simplistic and is not laden with economic matrices.
- Allows both developing countries and donor countries to see interactions.
- The strength of the model is in its concept.
 - Despite the country of origin, albeit donor or recipient, countries want to see an image of themselves or one that coincided with our own image.
 - This basic concept explains why, in every third world country, peddlers flock the street selling everything and anything that they have created, built or grown, mimicking a capitalist society (De Soto, 2000).
- Model showcases weakness of countries to help themselves. developing countries want to be like donor countries and donor countries want to ensure that they keep that reality.

Limitations of the model

While, the model offers a base for examining many of the power relations and positions of two world states, there are limitations.

1. Lacks adequate explanation to maintain collaboration once goals have been achieved. For instance, if a country simply disburses aid to where it was intended to go without diversion or corruption, the model does not take in account this strengths perspective.
2. The model also assumes perfect progression through the collaboration stages. The assumption is that each donor-recipient relation progresses smoothly through the Tuckman's group process of forming, norming, storming, performing, etc. (Schriver, 2004).
3. Lastly, the model is unique, untested, and only explains the variation as to why aid has only worked minimally and cannot be generalized to all forms of foreign aid such as emergency relief, hurricane and disaster relief, and so forth.

Implications for practice

- Shortcomings of third world countries are exacerbated by inadequacies
 - **in management,**
 - **monitoring, and**
 - **Evaluation**
- To assess performance effectively, there must be
 - **Efforts and resources dispersed to conduct pre-program behavior**
 - **Resources for post-program behavior and contributions to legitimately attribute change to the intervention.**
- Aid can serve to meet many needs of developing countries but is not a catch-all cure of every ailment.
- Because an elite ruling class often concentrates power, there are huge disparities that force a distortion of social welfare in favor of the elite, limiting social welfare spending and negatively impacting social welfare development.

Future Research

- Many symptomatic aspects of foreign aid and impact on social welfare development have been examined. Such as increases or decreases in employment, education, and economic markets but have failed to look at other areas of social welfare development. Perez (2003) suggests that more information is needed on:
 1. **Migration and labor movements, including legal inflows by country of origins;**
 2. **Data on the impact of rich nation's domestic producer subsidies on trade;**
 3. **Data on the tax treatment of developing assets held in rich nations and on the income earned by those assets;**
 4. **Details on tax-information agreements if any) between developing countries and rich countries;**
 5. **Internationally comparable data on private aid flows from rich countries to poor ones, including aid from churches, foundations, and other voluntary organizations;**
 6. **Data on remittances from migrants back to their home countries;**
 7. **Data assessing how rich countries affect the security environment of poor countries, from U.S. contributions to keeping major sea-lanes open for trade to French and British subsidies for arms sales to developing countries.**

Future Research cont'd

- Studies have not confirmed a correlation between aid and faster growth.
- There is need for more instruments to effectively measure aid and its effectiveness (Hansen & Tarp, 1999).
- Developing countries continue to find it hard to raise their own capital due to huge debts and inability to attract investments.
- Structural adjustment or stabilization programs to achieve external and internal balance have added to these measures and cannot be part of the solution to making aid work as they undermine ownership.
- With these new databases of information researchers, policymakers and donors will have greater tools for effective decision making and clear the doctored image that permeates the literature.

Conclusion

- Forecasts of pending population increases in poverty and population, in the years to come, add to the reality of third world countries. This picture must be analyzed for the frame of which it has been historically presented.
- Mirror model presents a lens to begin looking at aid and its impact on social welfare development
- The frame of reference for the model posits that first world states hold the mirror and endeavor to see images of themselves throughout the world.
- The model further questions the ability of the third world states to effectively reduce poverty rates with the hidden agenda of first world states?

Whose job is it?

When do we begin to clean up and offer aid where it can, and will make a difference, if it ever reaches the poor?

- Foreign aid positively impacts social welfare development in recipient countries, particularly if there are fiscal measures and policies that support the poor.
- However power is placed in the hands of politicians and corruption is welcomed not punished.
- Clean up of corruption and uses of foreign aid is necessary but donor countries do not want the responsibility and the governments of the recipient nations are not ready. This is one reason why aid has not worked to the magnitude it can.
- Despite increasing foreign aid, developing countries remain vulnerable.

Closing Questions

- **Whose job is it?**
- **When do we begin to clean up and offer aid where it can, and will make a difference, if it ever reaches the poor?**

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